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STATE FOR EAP/CM AND EEB/OMA, TREASURY FOR OASIA

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TAGS: ECON EFIN EINV ETRD HK CH
SUBJECT: Hang Seng Plummets, Rebounds on Expected New U.S. Bailout Bill

REFS: A) HONG KONG 1801, B) HONG KONG 1790

¶1. Summary: The Hang Seng Index opened down sharply on news that the U.S. Congress had rejected a USD 700 billion rescue plan and word of the subsequent collapse in the U.S. and European stock markets. The Hang Seng Index opened at 980 points or 5.5 percent lower, and fell even further in early trading before bouncing back at mid-day. Comments by senior Hong Kong government officials, including the Chief Executive, early in the day reaffirming the safety of the Hong Kong banking system and encouraging calm helped, as did analyst assessments that the U.S. Congress would move quickly to approve a revised plan. Shortly after markets closed, the HKMA announced plans to enact five temporary measures to ensure liquidity in the Hong Kong banking system. End Summary.

¶2. Senior Hong Kong government officials acted quickly this morning to address Hong Kong market concerns about the U.S. Congress' rejection of the USD 700 billion rescue plan and the record plunge in Dow Jones Index last night. Financial Secretary John Tsang, Secretary for Financial Services and the Treasury K.C. Chan, and Hong Kong Monetary Authority Chief Executive Joseph Yam all met the press separately before the Hong Kong Stock Exchange opened, calling on investors to keep calm.

¶3. Yam emphasized that Hong Kong's banking system is safe and adequately capitalized. He added that the U.S. markets are likely to be volatile over the next several days and overseas markets, including Hong Kong, would be impacted. He advised investors to act cautiously and reduce risk. Financial Secretary Tsang followed with a separate press conference where he expressed his disappointment about the U.S. Congress' failure to approve a market rescue plan and warned that failure to do so could have a severe impact on the global financial market. He echoed Yam's advice to investors to reduce risks and predicted volatility ahead for the Hang Seng Index. Financial Secretary Tsang told reporters that he is confident that the U.S. Congress will pass measures to address the financial crisis.

Hong Kong Securities and Futures Commission issues warning to short-sellers

¶4. The Hong Kong Securities and Futures Commission pulled out its stick to scare speculators. In a press release issued shortly before the opening of the stock market, the SFC warned market participants not to abuse the use of short selling and threatened to implement more aggressive measures toward irregular activities. The Hong Kong regulator said "it would not hesitate to act against abusive short selling, in addition to its decision last Friday to uphold the up-tick rule and to double the penalties imposed by the Hong Kong Securities Clearing Co. Ltd on failed settlement of short-selling transactions."

Chief Executive Reassures Investors

¶5. Just before mid-day, Chief Executive Donald Tsang answered

questions from the press on the financial situation. He acknowledged that the sharp drop in the Dow Jones Index overnight would inevitably affect the Hong Kong stock market. He joined Yam and his cabinet Secretaries in emphasizing that Hong Kong's economic fundamentals are good and praised Hong Kong's sound regulatory systems. He noted the Hong Kong investors have extensive experience in crises, citing the Asian Financial Crisis and SARS, and opined that he has confidence in the government's ability to handle the current situation. Tsang reassured the Hong Kong people that the government would closely monitor events and take decisive action if needed.

¶6. Investors seized on the Chief Executive's remarks as well as analyst expectations that the U.S. Congress would approve a market rescue plan with some additional conditions to boost the Hang Seng Index. The market climbed throughout the afternoon, finishing at 18016.21, up 135.53 points, or 0.76 percent. Market turnover was HK$ 71.81 billion. HIBOR finished at 2.5 percent for overnight, 3.75 percent for 1-week, 4:00 percent for 2-week, and 3.65 percent for three-month loans.

HKMA Promises Liquidity

¶7. Just after the market closed in Hong Kong, HKMA Chief Executive Yam and Financial Secretary Tsang jointly announced that the Hong Kong Monetary Authority will implement five temporary measures to increase liquidity for the Hong Kong banking sector. HKMA will accept approved U.S. dollar assets as security for liquidity assistance from the HKMA discount window; the duration of liquidity assistance will be extendable for up to three months; Exchange Fund paper may be used for up to 100 percent of collateral for Discount Window borrowing, up from 50 percent; the HKMA will consider U.S. dollar swaps with licensed banks as needed; and the HKMA will

consider lending cash to licensed banks for up to one month, with acceptable collateral. These measures will run through March of
¶2009. When asked why the HKMA was moving now to guarantee liquidity, Tsang replied that "when you see a typhoon coming, it is best to be prepared."
Donovan